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RUEHWL/AMEMBASSY WELLINGTON 2581
RUEHKA/AMEMBASSY DHAKA 0929
RUEHLM/AMEMBASSY COLOMBO 0990
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C O N F I D E N T I A L SECTION 01 OF 02 JAKARTA 000837

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SUBJECT: KING COAL -- THE POLITICS OF DECENTRALIZATION IN
SOUTH KALIMANTAN

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Classified By: Pol/C Joseph Legend Novak, reasons 1.4 (b+d).

[11](#). (C) SUMMARY: On April 24, President Yudhoyono traveled to South Kalimantan to highlight "the success" of decentralization. In an April 23 visit to South Kalimantan, however, emboffs discovered that local coal industry bosses heft significant political clout, using their influence like robber barons to buy support and quash environmental opponents while marginalizing sustainable alternatives. Based on our soundings, while the decentralization process is positive in many ways, it can also result in a pattern of poor governance when local officials become beholden to special economic interests. END SUMMARY.

THE NEW RICH

[12](#). (SBU) President Yudhoyono commemorated "Regional Autonomy Day" on April 24 with a visit to Tanah Bumbu Regency (district) in South Kalimantan. The regency, created five years ago, is known for high economic growth from coal products and is--according to those who monitor such things--one of Indonesia's prominent examples of success under decentralization. The area has seen many "new rich" benefit from locally administered coal concessions, observers told us. One described a coal business owner's household with three new Hummers--one parked under a banana tree--as an example of conspicuous consumption in the remote area of Tanah Bumbu. (Note: Mission team also visited East Kalimantan during its April 22-24 visit to the region. See septel regarding the East Kalimantan stop.)

KING COAL

[13](#). (C) There is no doubt that coal is king in South Kalimantan. Under decentralization, local governments can freely give coal concessions for land under 100 hectares; thus, coal bosses split larger land concessions into 100 hectare pieces. Plus, coal mining in South Kalimantan seems

to be easy money: "If you own land in a coal rich area, you don't have to do anything," environmental activists told us. "Just wait and people will come knocking, offering mining excavation equipment," said Eko Luruh Jatmiko, Deputy Director of the South Kalimantan branch of national environmental NGO Walhi.

¶4. (C) According to manifold contacts, local mining bosses wield significant political power. In comments echoed by other contacts, Jatmiko asserted that "they pay off voters when it comes time for a local election." By giving mining concessions, local governments keep their regencies' revenues high for the short term.

BUT IT'S NOT SUSTAINABLE

¶5. (SBU) Local government officials acknowledged to emboffs that mining is not sustainable and that it can hurt the environment. Nevertheless, political will is low to shift from a focus on mining to sustainable alternatives in part because mining creates substantial jobs from the local perspective. In addition, the owners of the coal companies are powerful and do not support a shift away from the focus on mining.

¶6. (C) Thus, even the governor, who recognizes the potential problems stemming from an excessive focus on non-sustainable coal mines, is reluctant to turn down coal business, environmental activists told us. Also, Suharto-era regulations accentuate the problem of political corruption and environmental degradation. Indonesian law requires "ring fencing": a mining company must set up a separate company for each concession--each with a separate board of directors, staff and equipment. The small companies easily declare bankruptcy or disappear, leaving excavated areas and acid

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run-off while avoiding liability for environmental damages.

IT'S UPHILL FOR ALTERNATIVES

¶7. (SBU) Alternatives to coal mining face other challenges. Other options require long-term investment in market analysis, education and product development. Rights activists see alternatives such as capitalizing on biodiversity in the remaining forested areas of South Kalimantan, or production of honey, rubber, ginger, candlenut, or other traditional goods as key to empowering local indigenous Dayak communities. Such economic diversification would protect those communities and their land from exploitation.

¶8. (SBU) Organizations like the Institute for Peoples' Empowerment (LPMA) provide market education and management skills to rural communities. Weak management skills in the communities, however, hamper product development and the bringing of traditional products to market, LPMA Program Manager Dewi Novitasari told emboffs on April 23.

DECENTRALIZATION AND ITS DISCONTENTS

¶9. (SBU) South Kalimantan has profited greatly from regional autonomy and that's why President Yudhoyono took the opportunity to highlight that on Regional Autonomy Day. Clearly, under decentralization, significantly more local revenues are being kept for local needs than in the past. That is a much fairer system than sending all the funding to Jakarta and hoping for delayed disbursements of the largesse.

(Note: Septel reviews the very positive experience that Tarakan, East Kalimantan, has had with decentralization, for example.)

¶10. (C) That said, the influence of the coal business on local politics is exorbitant at this point. Groups like Walhi and LPMA are working hard to provide alternatives to coal and educate a new generation of civil society activists,

but their influence is dwarfed by that of the coal owners. Activists hope that increased pressure from civil society will help clean up local politics, undercutting local political support from coal bosses, but they do not see the fight as taking place on a level playing field. As feared--despite its great success and further promise--decentralization as it is playing out in South Kalimantan is effectively promoting the influence of specialized interests, thus creating imbalances and friction that need continued scrutiny.

HUME